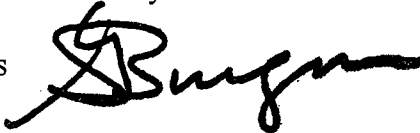




MEMORANDUM

TO: Honorable Chairperson Barbara Carey-Shuler, Ed. D. and Members, Board of County Commissioners **DATE:** September 23, 2003

FROM: George M. Burgess, County Manager  **SUBJECT:** 2004 Health Benefits Plan Renewals

The Executive Insurance Committee (Committee), comprising senior County staff, very recently concluded the 2004 insurance renewal process with our benefits consultant, Deloitte & Touche. Like most employers, the County and employees will experience some increase in dental plan costs and very significant increases in health plan contributions for Health Maintenance Organization (HMO) and Point of Service (POS) plans in 2004. Given the magnitude of the increases we are facing in HMO and POS coverage, I am providing a full report to you on our health plan costs.

Summary

Total annual contributions are depicted in the table below.

Annual County Health Benefits Contributions 2003 and 2004 (million dollars)					
Year	POS	HMO	Total Medical	Dental	Total Medical and Dental
2003	40.75	78.82	119.57	6.09	125.66
2004	56.91	89.01	145.92	6.30	152.22
Increase	16.16	10.19	26.35	0.21	26.56
%	39.7%	12.9%	22.0%	3.4%	21.1%

There will be a modest increase in dental plan costs, increasing from \$6.09 million to \$6.3 million in 2004 or a net increase of 3.4%. Dental plan contributions for MetLife users will increase 5% while rates for Oral Health Services and American Dental subscribers will experience a 3% rate reduction. The increase in HMO contributions to the County totals \$10.19 million or 12.9% on average across plans for a total 2004 contribution of \$89.01 million. Increases in HMO plans range from 10.5% to 22.1% or an average increase in County contribution of \$21.94 biweekly (\$570 annually) per employee. The largest increase in plan contributions is the result of the rate changes for the POS plan. POS costs will increase by 39.7%, representing \$16.2 million in additional costs. It is important to note that the County assumes the same percentage increases as those that will be passed on to employees in 2004.

The Committee considered several methods for reducing biweekly contributions including increased co-payments for primary care provider (PCP) visits, specialist visits, hospital admissions and prescription drugs to offset some of the premium increases. These alternatives however, represent increased out-of-pocket costs to employees. After weighing these options, the Committee elected to adopt the premiums as outlined in Tables 1 through 3 below for Dental, HMO and POS plans for fiscal year 2004.

What follows is a summary of each plan category showing the 2004 premiums, and the rate increase relative to 2003 premiums.

Dental Plans

The County provides three dental plan choices; MetLife, Oral Health Services (OHS) and American Dental Plan (ADP). Fifty seven percent (57%) of County employees are enrolled in the MetLife plan (Figure 1) and premiums for this plan will increase five percent (5%) for 2004. Eighteen percent (18%) of employees are enrolled in the OHS plan and 25% in ADP. Both of these plans offer a three percent (3%) reduction in premiums to the County and to our employees for 2004. Table 1 shows the proposed dental premium contributions for 2004 compared with the contributions paid in 2003.

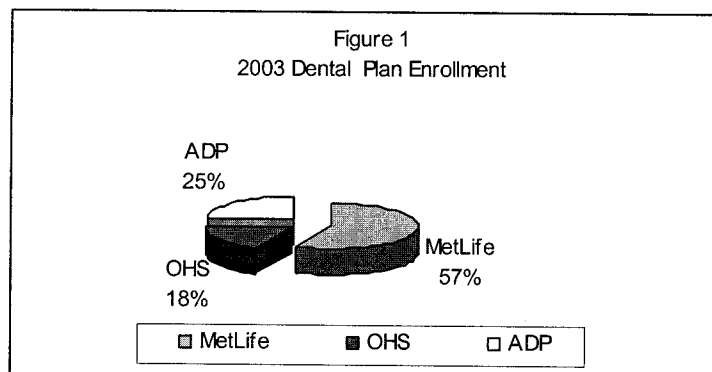
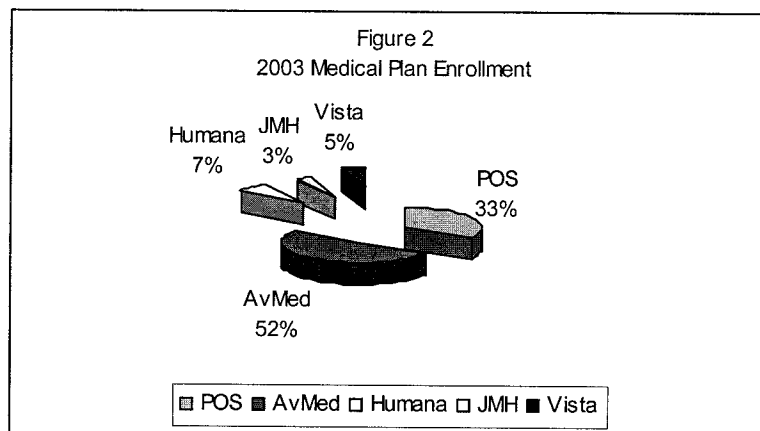


Table 1
Dental Plan for 2004
(Biweekly Contributions in dollars)

Provider	MetLife Standard		MetLife Enriched		American Dental Plan Standard		American Dental Plan Enriched		Oral Health Services Standard		Oral Health Services Enriched	
	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004
County	13.10	13.75	13.10	13.75	3.80	3.68	3.80	3.68	3.94	3.81	3.94	3.81
Employee: Single Coverage	0	0	4.04	4.25	0	0	1.18	1.15	0	0	1.19	1.05
Employee: 2-Person Coverage	12.80	13.44	20.80	21.84	2.48	2.41	4.47	4.34	2.54	2.47	4.56	4.32
Employee: Family Coverage	28.65	30.08	41.54	43.62	5.82	5.64	9.35	9.07	6.01	5.83	9.52	9.13

Health Maintenance Organization (HMO) Insurance Plans

As indicated in Figure 2, approximately sixty seven percent (67%) of County employees are enrolled in HMO plans while thirty three percent (33%) are enrolled in the Point of Service plan administered by Cigna. Employee enrollment in the remaining three HMOs together constitutes only 15% of total enrollment.



Increases in our HMO plan renewal costs range from 10.5% to 22.1% or an average increase in employee biweekly rates (weighted by enrollment) of \$15.87 and \$21.29 respectively for 2-person and family coverage. However, as shown in Table 2, employee contributions for single person coverage remain unchanged. The average increase in the County contribution per employee for HMO coverage will be \$21.94 biweekly or \$570 annually.

Table 2
Health Maintenance Organization Plan Contributions for 2004
Biweekly Contribution per Employee in dollars

Provider	AvMed		Humana		JMH		Vista	
Year	2003	2004	2003	2004	2003	2004	2003	2004
County	173.36	194.16	148.34	181.05	156.57	173.06	144.66	165.72
Employee: Single Coverage	0	0	0	0	0	0	0	0
Employee: 2- Person Coverage	123.05	137.81	105.31	128.53	110.94	122.62	102.71	117.66
Employee: Family Coverage	166.90	186.93	142.40	173.80	150.52	166.38	138.87	159.08

It should be noted that while the intent of competition among managed care HMO plans was to save money through discounts, gatekeepers, and plan design, over the past several years, there has been a convergence in rates and plan costs.

Point of Service (POS) Insurance Plan

Enrollment in the POS plan represents 33% of our employee population. The high cost of the plan has driven younger and healthier employees into HMO plans which results in adverse selection into the POS plan and consequently, an unfavorable risk profile for this group. Premiums payable on the POS plan (Table 3), currently administered by Cigna, will be increase by 39.7% and represents a fiscal impact to the County of \$16.2 million.

Table 3
Cigna Point of Service Plan (POS) Premiums for 2004
(Biweekly Contributions in dollars)

Year	2003	2004
County Contribution	173.82	242.76
Employee with Single Person Coverage	5.38	7.52
Employee with 2-Person Coverage	163.06	227.73
Employee with Family Coverage	224.44	313.46

This increase in premiums may be attributed to three primary events that appear to have significantly impacted premium costs as described below.

- 2003 Forecasting Shortfall. As you are aware, the POS plan is self-insured and premiums are established by the County based on recommendations made by the benefits consultant. The consultant analyzes and reviews plan costs and projects the amounts needed to fund anticipated claims and to underwrite administrative costs for the succeeding year. It now appears in estimating the 2003 claims costs, our previous benefits consultant overestimated discount differentials between our previous carrier, Blue Cross Blue Shield of Florida, and our current carrier, Cigna. Consequently, the recommended 4% increase in plan premiums approved for 2003 was not sufficient to cover actual claims incurred and in retrospect, it appears that the increase should have been closer to 16%. This forecasting shortfall represents approximately \$5,000,000 or 31% of the overall increase reflected in the 2004 rates.
- Absorption of the Police Benevolent Association (PBA) Enrollees. In June 2003 the County assumed the health plan costs of including PBA health plan members in the County's health program. The cost of this action was unanticipated when the 2003 health plan rates were established. Since adding the PBA members to the plan the County has experienced a noticeable increase in claims activity. As you may recall, the benefits consultant predicted a revenue shortfall of approximately \$2,500,000 in 2003 as a result of absorbing the PBA members into the County's plan. This shortfall must also be recovered through an appropriate rate adjustment and represents 15% of the overall increase in the 2004 premiums.
- Market Trends and Inflation Effects. In the absence of any funding deficiency, the County's insurance program costs would have increased by approximately 18% as a result of healthcare market trends and inflationary effects. It should be noted that although inflation in medical insurance rate average approximately 15% nationally, our local regional healthcare costs are among the highest in the nation, consequently, the average increase in this region are higher than those in many other jurisdictions.

The consultant presented the Committee with alternative plan design considerations to offset some of the premium increases. These options included increasing co-payments for primary care provider (PCP) visits, specialist visits, hospital admissions and prescription drugs. While these options were considered, the Committee recommended to adopt the premiums as outlined above in Tables 1 through 3 for Dental, HMO and POS plans for fiscal year 2004.

c: Honorable Alex Penelas, Mayor